

# Business in society

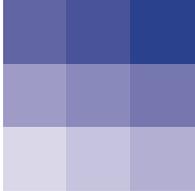
Making a positive and  
responsible contribution

A voluntary commitment  
by business to manage  
its activities responsibly



The world business organization





## Introduction

The role of business in an open market economy system is to create wealth for shareholders, employees, customers and society at large. No other human activity matches private enterprise in its ability to assemble people, capital and innovation under controlled risk-taking, in order to create meaningful jobs and produce goods and services profitably – profit being essential to long-term business survival and job creation.

While all businesses have an implicit set of inherent values, the number of businesses having formally written values and principles is rapidly increasing.<sup>1</sup> These have become more and more explicit and provide the framework for corporate behaviour beyond companies' legal obligations. At the same time, growing numbers of companies have been adding environmental and social indicators to their economic and financial results in reports that are often entitled social reports or sustainability reports. Indeed, sustained profits and principles are mutually supportive and an increasing number of companies view corporate responsibility as integral to their systems of governance. This is part of the requirements for doing business in today's global economy.

In recent years there has also been substantial growth in the number of principles, guidelines or codes produced for business by governmental and non-governmental organizations. Companies face multiple and sometimes conflicting demands to endorse these initiatives.

This has led more companies to consider how they should approach corporate responsibility issues, and more specifically whether they should develop their own business principles and which external codes they should use as reference points.

The main purpose of this document is to make practical suggestions to companies on how to approach corporate responsibility issues. The intention is to help position individual company principles in the existing framework of generic business principles, government codes, new initiatives, and broader societal values. The document's secondary purpose is to explain to those outside business how companies can approach corporate responsibility issues.

## What is corporate responsibility?

There is no single, commonly accepted definition of the concept of corporate responsibility, also referred to as corporate social responsibility, responsible business conduct, corporate citizenship, voluntary corporate initiatives, etc.

ICC prefers the terms responsible business conduct or voluntary corporate initiatives. However, this document also uses the term corporate responsibility, as this is most frequently used in publications on the subject.

ICC proposes the following definition of corporate responsibility from a business perspective: “the voluntary commitment by business to manage its activities in a responsible way”.

A growing number of companies approach corporate responsibility as a comprehensive set of values and principles, which are integrated in business operations through management policies and practices and decision-making processes.

## Where does ICC stand on corporate responsibility?

Since its foundation more than 80 years ago, ICC has promoted the market economy and the greatest possible economic freedom for business, based on self-regulation and responsible business conduct.

ICC strongly encourages voluntary corporate responsibility initiatives by companies. Various studies<sup>2</sup> have shown that companies practice good corporate citizenship by spreading best practice among customers and employees, suppliers and business associates — in areas such as labour, the environment and human rights — in countries where they operate. Responsible, long-term entrepreneurship is the driving force for sustainable economic development and for providing the managerial, technical and financial resources needed to meet social and environmental challenges.

Government's role is to provide the basic national and international framework of laws and regulations for business operations and that essential role will continue to evolve. Beyond this, good corporate practice is usually spread most effectively by strong corporate principles and example, rather than by codes of conduct. A commitment to responsible business conduct requires consensus and conviction within a company. Voluntary business principles have the advantage of bridging cultural diversity within enterprises and offering the flexibility to tailor solutions to particular conditions. Voluntary approaches minimize competitive distortions, transaction costs associated with regulatory compliance, and inspire many companies to go beyond the regulatory baseline, thus often eliminating the need for further legislation.

ICC recognizes the contribution that dialogue with responsible, transparent and constructive non-governmental organizations (NGOs) can make in addressing business issues that have a societal impact. Ultimately, however, the decision to engage NGOs in dialogue should be taken on a case-by-case basis and rest with the specific company and NGO concerned. Careful choice of dialogue partner is essential.

To be effective and relevant to an individual company's specific circumstances, business principles should be developed and implemented by the companies themselves. The thousands of multinational enterprises throughout the world face widely differing conditions in the various countries in which they operate.<sup>3</sup>

Moreover, many more companies have international activities directly or indirectly through purchasing and contracting. Company principles must be sufficiently flexible to reflect the diversity of firms as well as that of their suppliers and business partners. A one-size-fits-all approach is incompatible with the great diversity that exists within business, although some examples mentioned below provide a useful checklist of possible areas to cover. The great variety of individual company principles and other voluntary initiatives attests to this diversity and should be encouraged.

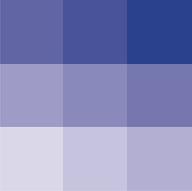
Companies that do not have formal business principles often have unwritten values that guide their operations, and may have internal policies, monitoring, appraisal and reporting procedures. Often, business principles themselves are supplemented by internal guidelines and procedures on specific issues, such as environmental management, safety and occupational health, or ethics and integrity. In the final analysis, it is the behaviour of the company that counts.

### Basic principles

ICC believes that, whether formal or implied, business principles should reflect the values expressed in the ICC Business Charter for Sustainable Development, in the ICC Rules of Conduct on Extortion and Bribery in International Business Transactions and in various ICC marketing and advertising codes.

### The value of external codes

While acknowledging that external observers may play a positive role in discussions about good business practice, ICC is concerned by the widening scope of codes of conduct at intergovernmental level purporting to improve the “corporate social responsibility” of enterprises, particularly those trading or investing outside their home countries. ICC urges governments to reject demands to impose codes on companies. The international activities of companies have demonstrably contributed to the positive aspects of globalization — a process driven by the spread of technology and the rapid development of communications and transportation. Through their international activities, companies often make an important contribution to improving living and working conditions in developing countries. By investing in production facilities and purchasing goods and services from local firms, they help to create jobs, develop skills and know-how, act as a vehicle for the transfer of technology and improve productivity and competitiveness, thereby strengthening the economy in the countries where they operate.



## A basis for action

### The primacy of individual company principles

For individual companies, by far the most important considerations are whether to make their voluntary business principles explicit, what these should be and how to ensure that they are acted upon. Legal implications of individual company principles should also be considered, since empty promises or claims could expose the company to liability. The principles themselves, and associated arrangements, are likely to be attuned to the needs and circumstances of the particular company: its history, its culture, geographical location, size, sector, and so on. In devising them, there will be much to learn from the good practice of other companies and from guidelines developed by business associations, whether national or international.

### A framework for business principles

Codes, and various resolutions and declarations by governmental organizations, can serve as useful benchmarks for large companies, as well as small and medium-sized enterprises (SMEs), in the development of their own individual formal principles and business conduct. SMEs make an essential contribution to improving economic and social conditions where they operate — for instance through the provision of employment and training. Companies must therefore be given effective freedom of choice to subscribe to such codes.

Although ICC does not formally endorse any codes other than its own, the following are listed below for research and reference purposes. A recent OECD study listed 128 such initiatives<sup>4</sup>, and that number is still growing.

*Broad recommendations:*

- the Guidelines for Multinational Enterprises annexed to the Declaration on International Investment and Multinational Enterprises of the Organisation for Economic Cooperation and Development (OECD);
- the International Labour Organization (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy;
- the Caux Principles (Caux Round Table);
- the Global Sullivan Principles.

*Specific or sectoral guidance:*

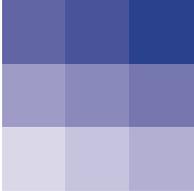
- the Responsible Care programme (chemical industry);
- the Coalition for Environmentally Responsible Economics (Ceres) Principles.

*Principles, guidelines or codes suggested by governments, intergovernmental agencies and non-governmental organizations:*

- European Parliament resolution on “EU standards for European enterprises operating in developing countries: towards a European code of conduct”;
- Inter-Faith Centre on Corporate Responsibility/Ecumenical Council for Corporate Responsibility/ Taskforce on the Churches and Corporate Responsibility (ICCR/ECCR/TCCR) Principles for Global Corporate Responsibility: benchmarks for measuring business performance;
- Amnesty International’s Human Rights Guidelines for Companies.

*Various UN declarations of core values:*

- the Universal Declaration of Human Rights (1948) (directed to “all organs of society”);
- the ILO Declaration on Fundamental Principles and Rights at Work (1998);
- the Rio Declaration on Sustainable Development (1992).



The three declarations were cited by United Nations Secretary General Kofi Annan in his speech at Davos in January 1999, inviting business to adopt universally agreed values in the areas of human rights, labour standards and environmental protection as a “Global Compact for the 21st Century”. ICC has welcomed Mr Annan’s appeal. Various initiatives are under way among the UN, ICC and other business organizations to demonstrate how companies are contributing to these values in the way they conduct their business. The Global Compact can play a useful role in promoting best corporate practice in response to the challenges of globalization, sustainable growth and responsible business conduct.

ICC applauds the primacy accorded to human rights by the United Nations; however, the making and enforcement of laws for protecting human rights are tasks for governments.

#### A voluntary approach

A company must develop its own understanding of how its principles or behaviour relate to external expectations or to external codes or guidelines. Internal monitoring of compliance, external reporting of performance and independent assurance are matters that should be decided by the companies themselves.

#### Relations with suppliers

Supply chain responsibility is an issue of growing concern for companies, particularly in those sectors in which production is largely outsourced (for example clothing and footwear). While, in most cases, companies cannot be held legally accountable for their suppliers’ conduct, a responsible business approach encourages companies — where reasonable and appropriate — to engage in a constructive dialogue and direct cooperation with their suppliers and subcontractors, especially in developing countries. Companies should encourage their suppliers to abide by the same business principles that they themselves uphold, thereby promoting good practice throughout the supply chain. This can be done using several incentives, including information and training, as well as audits of the supplier’s practices. Corporate buyers increasingly request their suppliers to provide comprehensive social and environmental information on the products and materials that they purchase.

Some companies may also require of their suppliers independent certification of conformity with standards of social responsibility. In these instances, companies could alleviate the burden on suppliers in developing countries, by accepting certification by others that is similar, but perhaps not identical, to their own requirements.

### Conditions for corporate responsibility

Only when companies are profitable can they contribute effectively to the improvement of social conditions by creating jobs and economic growth. Prosperous companies are therefore the best guarantee of economic development and job creation. It cannot be assumed that companies that adopt a responsible business conduct are also automatically economically successful or vice-versa. However, corporate responsibility can contribute to the success of a business and is part of good management.

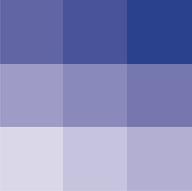
To be successful, companies cannot be indifferent to the society in which they operate. Peaceful conditions, legal certainty and good human relations within the company are key elements of business success. They create the stability and confidence that encourage investment, improve productivity and foster customer loyalty.

These are arguments in favour of corporate policies that include social, environmental and economic considerations that will benefit a broader constituency than those directly involved in the company's fortunes.

### What is the rationale for responsible business conduct?

Responsible business conduct may place companies in a more favourable legal and political environment, improve their public image, give them a strategic advantage over competitors in the long-term and help them to make their management systems more effective. Market forces, the demands of customers, and scope for pre-empting government legislation, all provide further incentives. Responsible business conduct may improve long-term profitability and the ability of companies to obtain a greater share of world markets.

These positive consequences of the exercise of corporate responsibility make it a far-sighted and profitable business policy.



Companies that have had experience in developing their own voluntary business principles have found that adopting such principles may:

*legal and political aspects*

- set a positive example by encouraging emulation and the spread of best business practice worldwide;
- anticipate new external pressures from regulatory bodies;
- improve relations with regulatory bodies and be helpful regarding decisions on operating licences;
- reduce exposure to litigation or criminal and civil sanctions;
- contribute to the development of economically efficient solutions, sometimes more efficient than those arrived at through regulation;

*aspects relating to relations with customers, suppliers and the public*

- help build customer attraction, satisfaction and loyalty, at a time when customers are increasingly exercising their right to choose;
- reduce risks of negative publicity, boycotts and tarnished public image;
- improve product image, brand name and reputation;

*organizational aspects*

- increase morale, transparency and trust among company personnel;
- help diffuse new technologies and best management practices;
- induce a better supervision of supply-chain management;

*economic and financial aspects*

- reduce operating costs through systematic management of resources;
- reduce the cost of doing business and attract new business through rigorous business integrity policies;
- increase productivity through a motivated workforce;
- attract a new range of investors;
- offer opportunity for inclusion in socially-responsible investment indices.

# Nine practical steps to responsible business conduct

If a company is considering whether to develop its own business principles or to support external codes of conduct, the following steps are suggested.



## Confirm CEO/board commitment to give priority to responsible business conduct

A basic requirement is the commitment of senior management to treat responsible business conduct as a corporate priority. Rather than reacting to outside pressures, a company's voluntary adoption of its own business principles should be motivated by the desire to express the values that guide its approach to doing business.



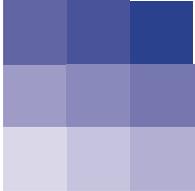
## State company purpose and agree on company values

Responsible business conduct is built upon the values and goals of the company itself, as well as on legal requirements and stakeholder expectations. Business principles commonly include a statement of mission, values and operating principles. All companies should consider articulating their core values as an underpinning for their own principles.



## Identify key stakeholders

Business principles set out what companies see as their responsibilities to employees, shareholders, customers, business partners and other groups in society. Finding out from stakeholders what issues are important to them is therefore essential. Stakeholders — defined as those constituencies that have a direct stake in a company — typically can include shareholders and investors, company employees, trade unions, client companies and consumers, and local communities directly affected by a company's operations. A company may also wish to broaden its consultations to include other participants in the production chain, as well as government authorities, the media and non-governmental organizations. Companies should be mindful of the



differences that may exist within stakeholder groups, such as local communities, who are becoming increasingly emphatic about their concerns and with whom it may be useful to establish a dialogue.



### Define business principles and policies

Each company needs to think through its principles for itself (rather than just take an existing code off the shelf). Some companies choose to do this through open dialogue and collaboration with selected stakeholders. Some companies' business principles are high-level statements of principle; some contain more detailed statements of policy, while others prepare separate materials on policies, management systems, implementation and monitoring procedures. The underlying reasons why business principles make good economic sense should be borne in mind in defining the principles. Companies should consider legislation, social expectations, reputation indicators, risk management, bottom-line benefits, corporate and product image and strategic advantage.



### Establish implementation procedures and management systems

Companies must raise awareness among their own personnel and other stakeholders if business principles are to be effective and command wide support. Processes or formal management systems for developing, adopting and implementing individual principles should therefore include internal consultation and communication. Companies offer many examples of management systems covering areas ranging from health, safety and the environment to business integrity, human resources and sustainable development. There are also international standards for these systems, such as those of the International Organization for Standardization (ISO). In some sectors, management processes and guidelines also apply both to joint ventures and to contractors and suppliers. The range of issues covered varies between sectors but continues to develop to include, for example, diversity of the work force, climate change, biodiversity, waste management and recycling. In order to implement its business principles effectively, a company should define objectives and targets and a structured programme to achieve them.



## Benchmark against selected external codes and standards

Government-mandated or other external codes are unlikely to be a viable alternative to voluntary business principles developed by the company itself, although these may have significant value as external benchmarks. Some companies choose to express public support for one or more of these external codes. It is for an individual company or industry sector to decide what the most useful benchmark codes are and to develop their own understanding of how business principles relate to external codes and guidelines, and to societal expectations. Support for external codes can be time-consuming, since they may imply additional commitments. Companies should be selective, bearing in mind their own needs. ICC can provide guidance on the implications of supporting some of the existing international code offerings.



## Set up internal monitoring

Corporate policies and their implementation need to be kept under constant review to keep abreast of developments in technology and scientific understanding, customer needs and wider societal expectations. It is for the company to assess its social performance through internal consultation and periodic review by management. Equally, it is the company's responsibility to check that its business principles are being acted upon. The extent and manner of external reporting of performance is, of course, for the company to decide. Given the wide differences between industries and individual companies, the contents of such reports are bound to vary. Several international initiatives are being undertaken to develop a common yardstick for voluntary reporting of the economic, environmental and social impact of company activity. An example is the work being done by the Global Reporting Initiative, which is supported by the UN and other international organizations, to agree on a set of common core indicators. They would enable investors and other stakeholders to make global comparisons. Companies should retain the flexibility to adapt such voluntary indicators to their particular circumstances. A key way for companies to create confidence and trust in their commitment to responsible business conduct is to provide timely and reliable information on their financial, environmental and social performance and to communicate this to their stakeholders. Markets all over the world provide examples of companies who enjoy sustained public goodwill and respect by doing this successfully.



## Use language that everyone can understand

Principles, policies and guidelines must be clearly expressed, particularly if the material is to be translated. The same is true of any external reports.



## Set pragmatic and realistic objectives

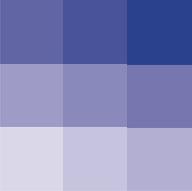
These recommendations require the commitment of executives running the business and the development of expertise and internal processes. Above all, responsible business conduct requires a sustained effort by everybody in the company. A key element of a company's organizational development is promoting the importance of responsible business conduct and ensuring that new managers are well versed in this area.

## Conclusion

This document sets out why ICC is convinced that it is in a company's interest to make corporate responsibility a priority in today's competitive world of instant communication, in which stakeholders have access to a wealth of information and enjoy an abundance of choice. Having stated the case for responsible business conduct, and its benefits to profitable business operations, this document aims to provide practical advice on how to make corporate responsibility to society an integral part of business conduct.

The very act of formulating business principles can be of great value in articulating a company's view of its place in society and what can and should be expected of it. Setting and implementing guidelines is not a once-and-for all affair, but a dynamic process. Once established, principles must be subject to continuous review to keep up with the times and the expectations of all stakeholders, especially a company's customers.

Business makes a huge contribution to economic and social development. Companies are eager to encourage environmental and social progress by remaining true to their own business principles. Whether these are formal or informal, they play an important role in bridging cultural diversity within companies and in enhancing awareness of societal values and concerns. Finally, voluntary principles are much more effective than prescriptive regulation, because self-regulation is far more easily adaptable to the vast differences in circumstances, objectives, operating methods and resources of individual companies. Principles that are freely adopted without external constraint enable companies to find solutions and make improvements that regulations alone could not achieve.

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- 1 Companies refer to these in a variety of different ways, including statement of business principles, code of business conduct, standards of business conduct, code of business ethics, etc.
  - 2 For example, see United Nations Conference on Trade and Development, *World Investment Report 1999, Foreign Direct Investment and the Challenge of Development*, July 1999; and Deborah Spar, *The Spotlight and the Bottom Line: how multinationals export human rights*, *Foreign Affairs*, Volume 77 No. 2, March/April 1998.
  - 3 According to the United Nations Conference on Trade and Development, there are currently 60 000 multinational enterprises in the world.
  - 4 Organisation for Economic Cooperation and Development, *Corporate Responsibility: private initiatives and public goals*, 2001. Chapter 3 of this study provides an analysis of the content of codes with respect to issue coverage and implementation procedures.

# The International Chamber of Commerce

ICC – the International Chamber of Commerce – is the world business organization.

With member companies in more than 140 countries, it is a veritable “United Nations” of the business world.

As a globalized, more integrated world takes shape, companies large and small increasingly look to ICC to represent their interests at the highest levels of inter-governmental decision-making.

Whether at the World Trade Organization, the G8 or the United Nations, ICC ensures that the voice of business is heard.

ICC is the world’s leading advocate of the benefits of globalization - convinced that international trade and investment and the market economy system are powerful forces for peace and prosperity.

It is an official business interlocutor to the United Nations, has a close working relationship with the WTO and meets regularly with government leaders and heads of state around the world.

Global influence is further exerted through a network of national committees. These national organizations, representing business in all the major trading nations and most developing countries and transition economies, have direct access to key players in their national governments.

National committees keep the ICC International Secretariat in Paris in close touch with national and regional business priorities and concerns. More than 2000 experts drawn from ICC’s thousands of member companies feed their knowledge and experience into the crafting of the ICC stance on specific business issues.

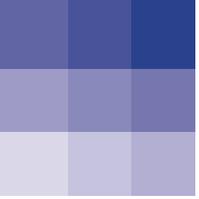
Recognizing the importance to business of spreading the benefits of economic growth, ICC works extensively with developing countries, helping them create vibrant economies and attract foreign investment.

In addition to this vital work, ICC formulates voluntary rules by which business is conducted every day. From the small start-up in Toronto to the software company in Bombay, business everywhere benefits from ICC’s rules and mechanisms for the conduct of trade.

Foremost among the essential services that ICC provides is the ICC International Court of Arbitration, the world’s leading arbitral institution.

Be it ICC online applications for doing business on the Internet, rules governing cross-border trade or standards for marketing and advertising – ICC is part of the fabric of world business.





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